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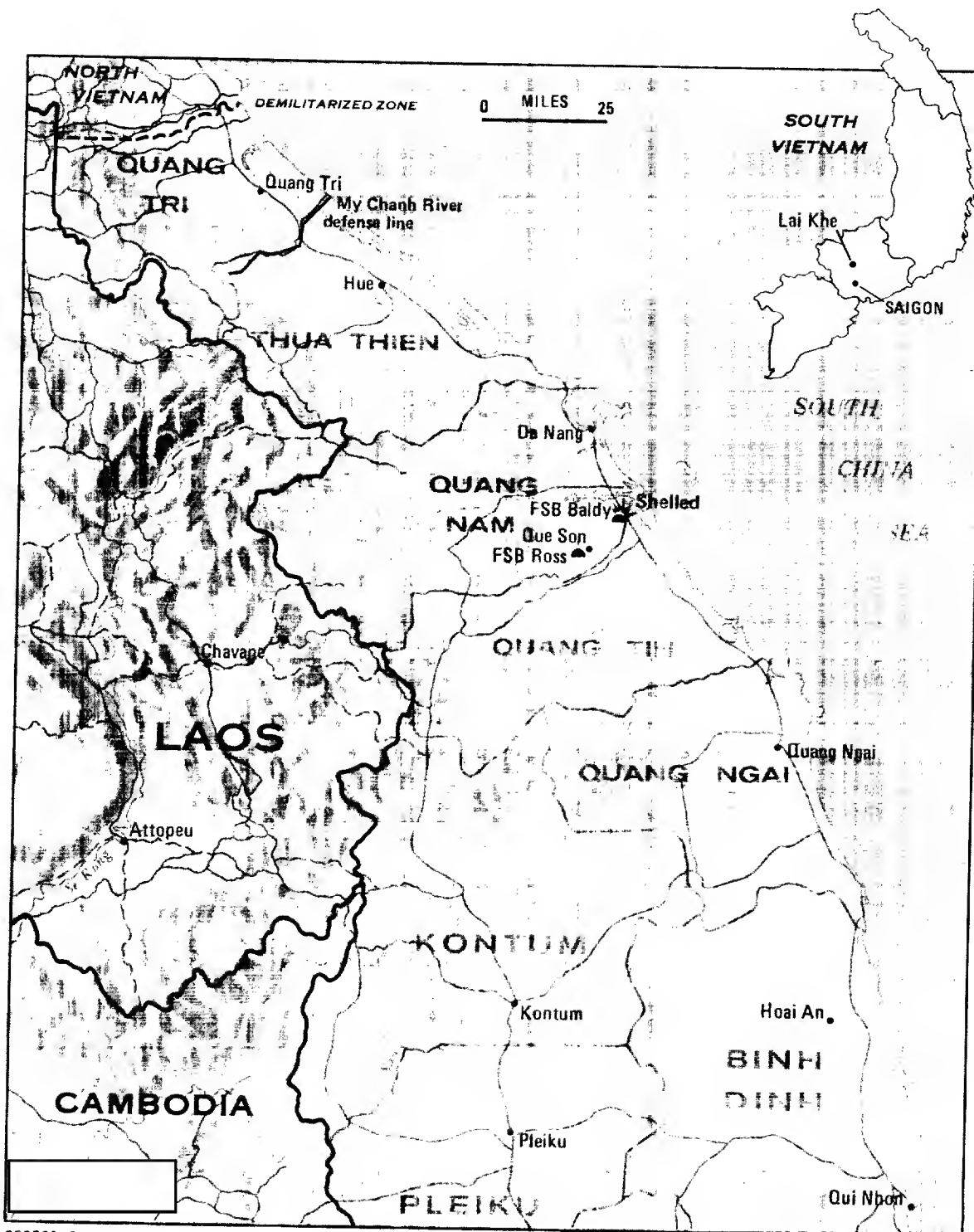
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VIETNAM: Fighting has eased somewhat in the northern provinces, but there are continuing indications that the Communists will soon try to regain the initiative.

Several captured prisoners claim that units of the recently infiltrated North Vietnamese 312th Division are to replace those of the 325th Division now fighting in Quang Tri City.

In the Que Son Valley, the Communists directed some 100 rounds of 130-mm. artillery fire into the government staging base around Fire Support Base Baldy on 29 August, but ground action remains generally light. Similar artillery and sapper actions apparently are also being used near Lai Khe, north of Saigon, to cover Communist troop shifts closer to Route 13.

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PHILIPPINES-US: President Marcos is moving to prevent any precipitate actions against US business interests, which are threatened by a recent Philippine Supreme Court ruling.

On 17 August, the court ruled that the 1946 constitutional amendment, which allows US interests to own land, applies only to public-domain land and not to private land. Since 1946, US firms and individuals have acquired some 37,000 acres of land, over three fourths of which had been privately owned. The court's decision is vague about whether all such US ownership is now void or voidable, and this has encouraged some Philippine congressmen to call for legislation that would provide for immediate takeover of the property by the Philippine Government.

The court also ruled that the expiration of the amendment on 3 July 1974 will cancel all corporate and land ownership rights now held by US interests. As a result of the decision, in addition to the approximately \$50 million in landholdings immediately affected, the future of a major portion of the total US investment of \$1 billion is in jeopardy.

In his recent public statements on the decision, President Marcos has tried to ease the concern of US investors without exposing himself to nationalist critics. He is stressing the need to maintain a favorable investment climate and has pointed to the constitutional provision that property may not be confiscated without "just compensation." Until the full ramifications of the court case are known, Marcos evidently wants to keep all options open. In particular, he does not want the legislature to pass implementing legislation that might prevent separate executive deals with the US during upcoming economic and trade negotiations.

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ISRAEL: Tourism, Israel's biggest single source of foreign exchange, dipped in July after 20 months of steady and speedy growth.

Fear of terrorist attack probably is the principal reason. Two incidents in May at Lod Airport--the hijacking of a Sabena airliner and a shooting of scores of civilians within the Lod terminal--were well publicized. Other factors include fear of a possible shortage of hotel accommodations and delaying of visits in anticipation of next year's celebration of the 25th anniversary of independence.

Last year tourism earned \$180 million, not including \$75 million earned by Israeli passenger carriers. Some further drop in such services, which in July was eight percent below the previous year, is likely before a turnaround is realized, and any further terrorist attacks on tourists would prolong the decline.

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FINLAND: President Kekkonen's dramatic intervention to obtain a compromise on pension reform has broken the impasse on forming a new government.

The controversial reform, which was passed by parliament in June over the objections of the minority Social Democratic government, has been the major obstacle in six weeks of negotiations. Kekkonen attended a Center Party council meeting on 25 August and appealed for acceptance of a Social Democratic - sponsored compromise so that a majority government could be formed to deal with the Common Market membership question and other issues. On 29 August the council accepted the compromise, which reduces the cost of the pension plan.

Kekkonen has asked Social Democratic Foreign Minister Kalevi Sorsa to form a four-party coalition consisting of the Social Democrats, Center, Swedish Peoples, and Liberal parties. The coalition would have the support of 107 of the 200 members of parliament. The Center Party's Ahti Karjalainen, a former prime minister, is expected to become foreign minister in the new government. The cabinet probably will consist of seven Social Democrats, five Centrists, two Swedes, one Liberal, and one non-political expert.

Sorsa told a press conference that the cabinet might eventually be expanded to include the Communists--presumably after the EC agreement is ratified and municipal elections are held in the fall--but that such speculation was "premature" at this time. He added that he hoped to have a government by the end of the week.

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BRAZIL: The Medici regime has issued an order that there be no press discussion of the presidential succession, an issue on which it considers itself the only authority.

On 24 August, security officials appeared at the offices of O Estado de Sao Paulo and Correio Braziliense, and possibly other papers, to make sure that the newspapers complied with the order. Rigid censorship continues at O Estado, which for some time has been the government's only strong press critic. Medici is determined to prevent any outsiders from arousing or exacerbating divisions within the military--where political decision-making primarily takes place--while demonstrating to all concerned that he is able and willing to take strong measures. He reportedly believes that civilian politicians, whom the military have consistently sought to discredit, influence the press and seek to stir up controversy for their own ends. In addition, the President feels that speculation on possible candidates could harm the chances of the man he eventually chooses.

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SRI LANKA: The recent capture of the pro-Soviet Communist Party by its militant wing weakens the party's commitment to Prime Minister Bandaranaike's coalition government.

The hard-liners, led by party President S. A. Wickremasinghe and Deputy General Secretary K. P. Silva, emerged from a party congress last week with a heavy majority in the central committee, which had previously been divided about evenly between militants and moderates. The hard-liners, with labor and youth support, have criticized the moderates for failing to push within the government for more radical policies and for trade union demands.

Many of the militants would like to oust the leading moderate, Housing Minister Pieter Keuneman, from his party post as general secretary and pull the party out of the Bandaranaike coalition. They may refrain from going this far, however. They know that they do not have sufficient strength in the legislature and among the public to endanger the government's position. They also are reluctant to antagonize their Soviet patrons, who probably fear that a complete break between the government and the Communists could heighten Mrs. Bandaranaike's uneasiness about Moscow's intentions toward Sri Lanka.

Whether or not they stay in the government, the Communists are likely to intensify their opposition to policies they deem "anti-popular." They would probably oppose programs the government might propose for halting the country's economic decline, such as reduction of welfare services or encouragement of private investment. They may also support an increase in agitation by their trade union supporters, who, like most Ceylonese, are disgruntled over the economic situation. If the Communists grow too strident, Mrs. Bandaranaike might decide to expel them from the government, a course of action already favored by some members of her party. [REDACTED]

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PERU: President Velasco reportedly is considering a shift from direct military rule to a military-backed civilian government.

25X1 [redacted] Velasco has approached former Lima mayor and Popular Christian Party leader Luis Bedoya about the possibility of collaborating with the military government and has asked him if he would be interested in running for president as the government-backed candidate in a future election.

25X1 [redacted] the armed forces will soon start dropping hints that it plans to return to the barracks at a certain date, in order to gauge the reaction.

Velasco almost certainly would not imperil military unity by exploring issues of this magnitude without the agreement of senior military officers. These reports, while fragmentary and far from conclusive, suggest that after nearly four years in power the military are evaluating their future role.

Velasco has declared repeatedly that the armed forces are determined not to step down until they are sure that their revolutionary reforms cannot be undone. There has been no indication of a change of heart by either the President or a significant segment of the armed forces. Thus, even if the military should decide to relinquish direct governmental responsibility, the changeover would probably be carefully designed to transfer the trappings rather than the substance of power. [redacted]

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IRAQ-KURDS: Fighting may soon resume in northern Iraq between the Kurds and government forces, following more than two years of relative peace.

Kurdish leader Barzani is reported to have distributed arms to local tribesmen who are eager to move against nearby Iraqi Army units. Armed Kurds have also reportedly occupied new strategic positions in the mountains.



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It is still unclear whether Barzani is spoiling for a renewal of full-scale hostilities or is merely trying to strengthen his forward defenses. The uncertainties for the Kurdish cause of any resumption of hostilities suggest that Barzani probably will proceed with some restraint. Nevertheless, any more extensive forward movement by armed tribesmen will increase the possibility of serious clashes between the Kurds and government forces in the area. 

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PANAMA: The 60-day period that the government had allowed for negotiating the purchase of the US-owned Power and Light Company ends today with chances of an agreement still in doubt. Both sides have shown a measure of flexibility, but as of yesterday they were still about \$4 million apart on the purchase price. The government decreed in July that, if agreement were not reached by 31 August, it would expropriate the company's properties, which it has operated since early June. Latest government thinking, however, is that Panama will simply go on running the company without issuing a formal decree of expropriation. Boise-Cascade, the parent company, has expressed unwillingness to continue negotiations beyond the 60-day period. In the absence of further progress, it will probably publicize its case in the US in order to put pressure on the Torrijos government. [REDACTED]

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HONDURAS: Labor difficulties have been added to the problems already facing President Cruz, which include the sometimes violent teachers' strike, an impending fiscal crisis, and the Liberal Party's threat to pull out of the "unity" government. The military is on alert, and members of the general staff have positioned themselves near General Lopez' office, probably signifying their willingness to oust President Cruz at Lopez' pleasure. The reluctant Lopez is the person to whom the general public looks as leader of the coup they think is inevitable, once he decides that the country's problems have become grave enough for him to step in. There is little popular sympathy for any of the "causes" currently at issue, and a decision by General Lopez to take things in hand, as he did in October 1963, would meet little resistance. [REDACTED]

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NEPAL-INDIA: Indian Government spokesmen have announced that patrols along the border with Nepal will be intensified and that New Delhi will not permit "hostile elements," such as the force that attacked a Nepalese police station last week, to "get any succor" in India. Prior to the attack, there had been a flurry of student and opposition agitation against King Birendra's authoritarian rule, but India's assurances have allayed the government's fears that insurgent activity would stimulate more unrest. Although the present excitement is likely to die down, pressure on King Birendra to liberalize his regime fosters an atmosphere of political tension. The Nepalese will need more than a one-time example of Indian good behavior before they become convinced that New Delhi is cured of the temptation to fish in troubled Nepalese waters. [REDACTED]

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